

## FISCAL NOTE

### HB 1683 - SB 1742

May 5, 1999

#### SUMMARY OF BILL:

- Removes the state and local sales tax on food.
- Repeals the present Franchise Tax Law.
- Repeals the present Excise Tax Law.
- Defines a "person" for tax purposes as every natural person, corporation, subchapter S corporation, limited liability company, partnership, proprietorship, cooperative, joint-stock association, business trust, regulated investment company, real estate investment trust, state chartered or national bank, state or federally chartered savings and loan association, and any other organization engaged in business.
- Imposes a 2.5% tax on the net earnings of all persons, the first \$50,000 of net earnings are exempt from the tax.
- Imposes a 2.5% tax on the wages of all persons, the first \$50,000 of wages are exempt from the tax and the maximum tax base for wages is capped at \$300,000,000 per person.
- Requires estimated quarterly payments to be made if a business's tax liability exceeds \$5,000 per year.
- Exempts persons that are currently classified as exempt under Internal Revenue Code 401(a), 501(c), and 501(d) as well as industrial development companies. Also exempts corporations whose sole purpose is the furthering of industrial development throughout the state and whose stockholders receive no income other than interest or dividends on money invested in such corporation and whose officers receive no compensation.
- Credits
  - Insurance companies would receive a credit for tax years that begin before December 15, 2002. To the extent that any fair tax liability remains after application of the gross premium tax credit, such tax would be reduced by the applicable percentage as follows:

Tax Year Beginning	Percentage
12/15/98 to 12/14/99	20%
12/15/99 to 12/14/00	40%
12/15/00 to 12/14/01	60%
12/15/01 to 12/14/02	80%
  - On each annual return for HMOs there would be a credit in the amount of the 2% tax HMOs pay on the gross amount of all dollars collected from an enrollee or on an enrollee's behalf.
  - A job tax credit of \$2,000 or \$3,000 for businesses located in economically distressed areas, for each net new full-time employee job when it is filled during the fiscal year and in existence at the end of the fiscal year would be allowed against a business' fair business tax liability for the year provided that:
    - The person has met the required capital investment in the qualified business enterprise.
    - The credit must first apply in the fiscal year in which the qualified business enterprise increases net full-time employment by 25 or more jobs, and in those subsequent fiscal years in which further net increases occur above the level of employment established when the credit was last taken.
  - The new full-time employee jobs are filled by January 1, 2008.

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- The unused job tax credit could carry over for up to 15 years. The amount of job tax credit, or any carryover, applied to a fair business tax liability for any tax year would be limited to 33.33%.
- A credit of 1% of the purchase price of industrial machinery located in this state and purchased during the tax period covered by the return. The credit would be limited to 50% of the portion of the fair business tax computed on the net earnings part of the tax base before any other allowable credit is taken.
- For hospital companies filing a fair business tax return on a combined basis, there would be a credit against the combined annual fair business tax in an amount equal to the lesser of the portion of the fair business tax credit computed on the compensation part of the base. Also for such companies there would be a further credit on the amount remaining after the first credit. The second credit would be in an amount equal to 4% of the cost of medical supplies and medical equipment used by or placed in service by the members of the controlled group in this state during the tax year. The aggregate amount of these two credits must not exceed \$9,000,000 in any one tax year.
- Allocations to cities and counties
 

FY 1999	\$150,227,916
FY 2000	\$156,987,872 (FY 1999 increased by 4.5%)
FY 2001 and thereafter	The distribution would be adjusted by an Amount equal to the percentage change in the Fair business tax.

The allocations listed above would be distributed in 12 equal monthly payments.
- Allocations for Premier Type Resort Areas
 

FY 1999	
Gatlinburg	\$133,700
Sevierville	\$246,000
FY 2000	
Gatlinburg	\$139,717 (FY 1999 increased by 4.5%)
Sevierville	\$257,070 (FY 1999 increased by 4.5%)
FY 2001 and thereafter	The distribution would be adjusted by an amount equal to the percentage change in the fair business tax collections from the preceding fiscal year to the next fiscal year.
- Allocations to the General Fund for K-12 Education Purposes
 

FY 1999	\$33,208,200
FY 2000	\$34,702,569 (FY 1999 increased by 4.5%)
FY 2001 and thereafter	The distribution would be adjusted by an amount equal to the percentage change in the fair business tax collections from the preceding fiscal year to the next fiscal year.

The allocation listed above would be distributed in 12 equal monthly payments.
- Allocations Earmarked Specifically and Exclusively to Education
 

FY 1999	\$237,546,800
FY 2000	\$248,236,406 (FY 1999 increased by 4.5%)
FY 2001 and thereafter	The distribution would be adjusted by an amount equal to the percentage change in the fair business tax collections from the preceding fiscal year to the next fiscal year.

The allocation listed above would be distributed in 12 equal monthly Payments.

- Allocations for Incorporated Municipalities

FY 1999           \$16,758,600

FY 2000           \$17,512,737 (FY 1999 increased by 4.5%)

FY 2001 and thereafter

The distribution would be adjusted by an amount equal to the percentage change in the fair business tax collections from the preceding fiscal year to the next fiscal year.

- Allocations to the Sinking Fund

FY 1999           \$3,351,700

FY 2000           \$3,502,257 (FY 1999 increased by 4.5%)

FY 2001 and thereafter

The distribution would be adjusted by an amount equal to the percentage change in the fair business tax collections from the preceding fiscal year to the next fiscal year.

The allocation listed above would be distributed in 12 equal monthly Payments.

- Allocations for Administrative Fee

An amount equal to 0.000872% of the tax collected would be distributed to the Department of Revenue as an administrative fee.

- Allocations for the General Fund

All remaining amounts of the revenue from the fair business tax would be distributed to the General Fund.

- Effective Dates

- For purposes of promulgating rules and regulations the bill would take effect upon becoming law.
- The repeal of sales tax on food items would take effect January 1, 2000.
- All other provisions of the bill would take effect July 1, 1999.

## **ESTIMATED FISCAL IMPACT:**

### **Increase State Revenues - Net Impact:**

**\$637,618,100 FY99-00**

**\$433,280,500 FY00-01**

### **Increase State Expenditures - Exceeds \$3,000,000 Recurring**

**Exceeds \$2,000,000 One-Time**

### **Increase Local Govt. Revenues - Net Impact \$49,840,000 FY99-00**

### **Decrease Local Govt. Revenues - Net Impact \$20,026,200 FY00-01**

Estimate assumes the following:

- The net increase in state revenues in FY99-00 is estimated to be \$637,618,100 as shown below:

<u>Tax</u>	<u>Revenues</u>
Fair Business Tax (Increase)	\$1,868,411,800
Remove Sales Tax on Food (Decrease)	204,337,700
Remove Excise Tax (Decrease)	565,056,000
Remove Franchise Tax (Decrease)	311,400,000
Apportion to Local Govt. (Decrease)	150,000,000

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- The net increase in state revenues in FY00-01 is estimated to be \$433,280,500 as shown below:

<u>Tax</u>	<u>Revenues</u>
Fair Business Tax (Increase)	\$1,868,411,800
Remove Sales Tax on Food (Decrease)	408,675,300
Remove Excise Tax (Decrease)	565,056,000
Remove Franchise Tax (Decrease)	311,400,000
Apportion to Local Govt. (Decrease)	150,000,000

- Repealing the sales tax on food is effective January 1, 2000.
- Repeal of the Franchise and Excise Tax is effective July 1, 1999.
- Implementing the Fair Business Tax is effective July 1, 1999.
- The total increase in state expenditures is estimated to exceed \$3,000,000 on a recurring basis and to exceed \$2,000,000 one-time.
- The net increase in local government revenues in FY99-00 is estimated to be \$49,840,000 as shown below:

<u>Tax</u>	<u>Revenues</u>
Apportionment from State (Increase)	\$150,000,000
Remove Sales Tax on Food (Decrease)	76,616,000
Remove Excise Tax (Decrease)	23,544,000

- The net decrease in local government revenues in FY00-01 is estimated to be \$20,026,200 as shown below:

<u>Tax</u>	<u>Revenues</u>
Apportionment from State (Increase)	\$156,750,000
Remove Sales Tax on Food (Decrease)	153,232,200
Remove Excise Tax (Decrease)	23,544,000

#### **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James A. Davenport, Executive Director